

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 SP-02 ICA-11 AID-05 EB-08 NSC-05

TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03

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P 051942Z JUL 78

FM AMEMBASSY MEXICO

TO SECSTATE WASHDC PRIORITY 1193

C O N F I D E N T I A L SECTION 01 OF 02 MEXICO 10949

C O R R E C T E D C O P Y (TEXT)

E.O. 11652: GDS

TAGS: EIND, EINV, MX, ETRCTC

SUBJECT: WARMAN'S VIEWS ON INDUSTRY AND INVESTMENT

1. I HAD LUNCH ON JULY 3 WITH NATAN WARMAN, SUBSECRETARY OF INDUSTRY IN THE SECRETARIAT OF PATRIMONY AND INDUSTRY AND PROBABLY THE MOST INFLUENTIAL GOM OFFICIAL ON INDUSTRIAL POLICY. WARMAN IS IN HIS MID-FORTIES, A TRAINED ECONOMIST AND A SPECIALIST IN GROWTH THEORY WHICH HE TAUGHT FOR SIX YEARS AT THE UNIVERSITY OF GLASGOW. THE CONVERSATION WAS WIDE-RANGING AND IS INTERESTING, I BELIEVE, FOR WHAT IT SHOWS ABOUT THE DIRECTION OF HIS THINKING. THIS IS THE FIRST TIME I HAVE HAD THE OPPORTUNITY TO HOLD A LENGTHY CONVERSATION WITH HIM AND HE CAME ACROSS AS CONCERNED ABOUT THE EVOLUTION OF THE COUNTRY'S INDUSTRIAL AND INVESTMENT POLICY, DETERMINED TO SEEK SOLUTIONS TO MEXICO'S PROBLEMS THAT WILL WORK AND NOT MUCH BURDENED WITH IDEALOGICAL BAGGAGE.

2. WE TALKED MOSTLY ABOUT MEXICO'S GENERAL SITUATION AND WARMAN'S FUTURE PLANS, BUT HE HAD SEVERAL COMMENTS ON THE CURRENT SITUATION. HE SAID HE WAS FRANKLY DISAPPOINTED
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WITH THE INVESTMENT RATE WHICH HE CHARACTERIZED AS BEING VERY LOW. FOREIGN INVESTORS WERE SHOWING A BIT MORE BOLDNESS THAN DOMESTIC INVESTORS, BUT NEITHER HAD COME UP TO EXPECTATIONS. I ASKED HIM ABOUT RUMORS ABOUT THE NEED FOR FURTHER DEVALUATION OF THE PESO AND HE EXPRESSED HIMSELF AS HOPEFUL THAT THE CURRENT RATE, WHICH HE THOUGHT WAS ABOUT RIGHT, COULD BE MAINTAINED. HE SAID THAT IT WAS NOT ABSO-

LUTELY NECESSARY THAT THE EXCHANGE RATE ACCURATELY REFLECT DIFFERENCES IN INFLATION RATES, AND NOTED THAT FOR 25 YEARS PRIOR TO THE 1967 DEVALUATION, MEXICO'S INFLATION RATES HAD BEEN ABOVE THOSE IN THE U.S. NEVERTHELESS, MEXICO HAD BEEN ABLE TO HOLD THE RATE, ECONOMIC GROWTH HAD BEEN GOOD AND IN THE END ONLY A 50 PERCENT ADJUSTMENT IN THE RATE HAD BEEN REQUIRED. HOWEVER, HE SAID THAT HE WAS DISCONCERTED IN HIS FREQUENT TRIPS TO THE U.S. TO FIND THAT SOME PRICES ARE CHEAPER THERE DESPITE MEXICO'S LOWER WAGE RATES.

3. THIS LED HIM TO THE NEED FOR AN ANTI-MONOPOLY PROGRAM WHICH HE HAS ADVOCATED PUBLICLY ON SEVERAL OCCASIONS. HE SAID THAT HE WAS IN THE PROCESS OF PREPARING STIFF ANTI-TRUST LEGISLATION WHICH HE HOPED COULD BE ENACTED. HE EXPRESSED HIS GRATITUDE FOR THE HELP HE HAD RECEIVED FROM THE US DEPARTMENT OF JUSTICE (HIS PEOPLE VISITED JUSTICE LAST YEAR AND HE HOSTED SEVERAL JUSTICE OFFICIALS HERE EARLIER THIS YEAR). I SAID THAT I WAS GLAD TO HEAR THAT WE HAD BEEN OF HELP, BUT THAT OUR EXPERIENCE WITH ANTI-TRUST HAD NOT BEEN ENTIRELY SUCCESSFUL, AND I WAS NOT SURE THAT OUR SYSTEM WAS THE BEST OF POSSIBLE GUIDES. WARMAN WENT ON TO SAY THAT IF A STRONG, EFFECTIVE ANTI-MONOPOLY LAW COULD BE PUT IN PLACE IT WOULD ACCOMPLISH MANY OF THE ECONOMIC ENDS WHICH HAD BEEN SOUGHT BY THE INVESTMENT AND PATENTS AND TRADEMARKS LAWS AND THESE, FROM AN ECONOMIC STANDPOINT, WOULD BE REDUNDANT. THESE LAWS COULD THEN BE REPEALED, ALTHOUGH HE RECOGNIZED THAT POLITICALLY THIS

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MIGHT NOT BE POSSIBLE. REDUCTION OF PROTECTION AGAINST FOREIGN COMPETITION WENT HAND IN HAND WITH REDUCING MONOPOLY POWER, AND HE WOULD LIKE TO SEE THE LEVEL OF PROTECTION ROLLED BACK INDUSTRY BY INDUSTRY. THIS, HE SAID, WOULD HURT MANY FOREIGN-OWNED FIRMS AS WELL AS DOMESTIC, SINCE THE FORMER EASILY FELL INTO THE HABIT OF LOW VOLUME AND HIGH MARKUPS WITH THE CONSEQUENT INEFFICIENCY WHICH THIS ENTAILED. I ASKED HOW HE SAW THE POSSIBILITY OF A US, CANADA AND MEXICO COMMON MARKET AND HE RESPONDED THAT HE THOUGHT IT A GOOD POSSIBILITY WITHIN A FEW YEARS ON SOME PRODUCTS.

4. WARMAN SAID THAT MEXICANIZATION HAD UNWITTINGLY HELPED THE PROCESS OF CONCENTRATION OF INDUSTRY AND COMMERCE. THE REQUIREMENT THAT MEXICANS PROVIDE AT LEAST 51 PERCENT OF THE CAPITAL OF NEW BUSINESSES MEANT IN PRACTICE THAT A FEW BANKS AND THE MONTERREY GROUPS WERE THE ONLY ONES WITH SUFFICIENT CAPITAL TO TAKE ON PARTNERSHIPS WITH FOREIGN INVESTORS. IN 4 OR 5 YEARS HE FEARED THAT THEY WOULD COME TO DOMINATE BUSINESS. TO COUNTER THIS TENDENCY AND TO DIVERSIFY THE DOMESTIC CAPITAL MARKET HE WOULD FAVOR ALLOWING A FOREIGN INVESTOR TO COME IN WITH

100 PERCENT OWNERSHIP ON THE CONDITION THAT WITHIN A YEAR OR SO HE PRODUCE A PLAN FOR SHARING OWNERSHIP WITH MEXICAN INTERESTS TO TAKE EFFECT GRADUALLY PERHAPS OVER A 5-YEAR PERIOD.

5. WARMAN THEN TURNED TO HIS PLANS FOR REVAMPING THE NATIONAL COMMISSION ON FOREIGN INVESTMENT WHICH MUST DECIDE ON ALL FOREIGN INVESTMENT PROPOSALS. IT CONSISTS OF SEVEN HEADS OF CABINET DEPARTMENTS AND HAS PROVEN TO BE TOO CUMBERSOME TO BE AN EFFECTIVE DECISION-MAKING BODY AND APPLICATIONS HAVE PILED UP. HE SAID THAT A NEW HEAD HAD BEEN CHOSEN WITH AS MUCH EXPANSION OF AUTHORITY AS PRESENT STATUTES WOULD PERMIT. IN ADDITION, EACH CABINET SECRETARY

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FM AMEMBASSY MEXICO
TO SECSTATE WASHDC PRIORITY 1194

C O N F I D E N T I A L SECTION 02 OF 02 MEXICO 10949

HAD APPOINTED A FULL-TIME PROXY TO REDUCE PROBLEMS OF BACKLOG AND WARMAN HOPED THAT THE RESTRUCTURED COMMISSION COULD MORE THAN TRIPLE LAST YEAR'S CASELOAD AND ELIMINATE THE BACKLOG WITHIN 90 DAYS. IN ADDITION, THE COMMISSION WOULD ADOPT A "PRECEDENCE RULE" SO THAT APPLICATIONS SIMILAR TO THOSE ALREADY RULED ON COULD BE DECIDED WITHOUT FULL CONSIDERATION BY THE COMMISSION. HE REALIZED THAT THE FAILURE OF THE COMMISSION TO REACH PROMPT DECISIONS HAD BEEN DISCOURAGING TO FOREIGN INVESTORS AND HE HOPED THE SITUATION WOULD BE IMPROVED BY THE CHANGES. ONE FURTHER IMPROVEMENT WAS A SHARP REDUCTION IN THE TIME NEEDED TO PROCESS THE PRELIMINARY QUESTIONNAIRE REQUIRED OF INVESTORS.

6. HE ALSO MENTIONED HIS BELIEF IN THE NEED FOR A LAND USE POLICY TO HALT THE MISUSE OF ARABLE LAND FOR HOUSING AND INDUSTRIAL PURPOSES, AND THE NECESSITY OF THOROUGHLY

OVERHAULING THE MEXICAN TAX SYSTEM WHICH HE CALLED
INEQUITABLE AND A "HODGE PODGE."

7. COMMENT: WARMAN HAS BEEN THOUGHT BY SOME TO BE A
LEFTIST. HOWEVER, IF THE VIEWS EXPRESSED DURING OUR CON-
VERSATION ARE AN ACCURATE GUIDE TO HIS THINKING, PRAGMATIST
RATHER THAN LEFTIST WOULD SEEM THE MORE ACCURATE CHARACTER-
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IZATION. HE ALREADY HAS GREAT IMPACT ON INDUSTRIAL POLICY
AND THERE ARE INDICATIONS THAT HIS INFLUENCE IS GROWING.
WE HAVE AGREED TO STAY IN TOUCH SO THAT WE MAY CONTINUE
OUR DIALOGUE. THOMPSON

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